



SAES Bulletin: COVID-19 and The Payroll Protection Program (CARES Act)

Through the *Payroll Protection Program*, Congress has authorized SBA loans to assist small businesses during this difficult time. Here are the frequently asked questions we are receiving from our schools:

Can schools apply for this assistance? Yes. Nonprofit organizations and faith-based organizations are eligible for this program. Both schools and churches are eligible to apply. The applicant is expected to demonstrate that the uncertainty of the current economic situation threatens continued operation without this payroll assistance.

Is this a loan? Yes and no. Initially, it is a loan and you will apply for it in the same way that you would apply for a line of credit at the bank. However, if you meet certain requirements, the loan could be forgiven (read: you wouldn't have to pay it back). More about that in a bit.

How do you determine the available amount? It's a bit complicated, but basically, you are eligible for a loan in the amount of 2.5 times your average monthly payroll. It gets a little tricky as you can't use the funds to protect the payroll of individuals compensated higher than \$100,000 per year. The bank can assist in calculating the exact loan amount after reviewing your payroll information.

What can you use the money for? In addition to paying your employees, you can use the loan proceeds to assist with benefit premiums, interest payments on some mortgages, utilities, and the service of other qualified debt.

You mentioned that we might not have to pay it back? This is an especially interesting provision. These loans can be "forgiven" under certain circumstances. This basically turns the loan into a grant. There are two elements that need to be satisfied in order to apply for forgiveness:

- First, the proceeds eligible for forgiveness must be used exclusively for payroll costs, interest on a mortgage, or to cover utility costs, and
- Second, the average number of employees can't decrease from the time the proceeds were received when compared to last year. (Obviously, they don't want to forgive a loan if lots of employees were laid off after the money arrived.)

If those elements aren't satisfied, the amount eligible to be forgiven would be reduced (read: you would pay it back under the terms of the original loan document). Also, be prepared to submit substantial documentation to demonstrate that the proceeds were used in accordance with the forgiveness guidelines.

If we do have to pay it back, when does repayment begin? All payments of principal and interest are deferred for a minimum of six months. Further, all SBA fees have been waived for this program.

How do we start the process? The SBA will identify lenders for this program. If you want to begin, start by contacting your school's regular bank to determine if they can handle your loan application. If they can't, they will be able to recommend a local lender approved to write these types of loans.

Please be advised that this is preliminary information and the SBA is in the process of generating guidelines which will advise banks in the administration of these loans. Also, there are still questions concerning what type of "strings" could accompany this type of relief. As of today, those questions are still being studied. Obviously, a school should only accept federal assistance after exploring this question in depth with legal counsel. ***This bulletin is not intended to be legal advice and a school should contact its attorney to discuss its particular fact situation.***